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TREASURY FOR DAS GLASER AND OIA

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TAGS: [ECON](#) [EFIN](#) [KWBG](#) [KTFN](#)
SUBJECT: ISRAELI-PALESTINIAN CORRESPONDENT BANKING
RELATIONSHIP AT A CROSSROADS

REF: A. TEL AVIV 1508
[B.](#) TEL AVIV 1075
[C.](#) TEL AVIV 624
[D.](#) 07 TEL AVIV 3201

Classified By: Econ Counselor David R. Burnett for Reasons 1.4 (b)
and (d)

[¶](#)1. (C) BEGIN SUMMARY AND COMMENT: On Sunday, September 29, Bank Hapoalim (BH), one of only two Israeli commercial banks providing correspondent services to Palestinian banks, informed the Bank of Israel (BOI) that it would end its business relationship and cease all services to Palestinian commercial banks on November 30. Esther Deutch, Chief Legal Advisor at Discount Bank, told econoff that while no formal decision has yet been made, Bank Hapoalim's move is likely to inspire Discount to follow suit within the next few weeks. David Zaken, Assistant Supervisor of Banks and Head of Examination and Licensing, told econoff that while BOI officials have not met to formally discuss their response, he believes that they will be able to forestall Hapoalim's decision. Unless the BOI is able to pressure the two banks to postpone or reconsider their decisions, it may be forced to compel the Israeli Postal Bank to take over the relationship. Were this initiative to somehow fail, Palestinian commercial banks would be effectively cut off from access to shekel money supplies and unable to transact business with Israel. This would be inconsistent with the GOI's policy of maintaining the shekel as the currency of the Palestinian Territories. END SUMMARY AND COMMENT.

[¶](#)2. (C) On September 30th, Boaz Raday, Executive Vice President at Bank Hapoalim, told Econoff that the bank had informed the BOI by letter the previous day of its decision to end the bank's Palestinian banking relationships. This move is the final step in the bank's incremental withdrawal from such business (see reftel "A"). Raday said that the decision was made at a meeting of Hapoalim's board of directors the week before. He added that the board had come to the end of its patience waiting for the GOI to force the semi-private Postal Bank to take over the Palestinian correspondent banking relationship.

[¶](#)3. (C) Raday claimed that the GOI's efforts with the Postal Bank had been largely superficial over the past year. Real political will to push the Postal Bank into accepting the portfolio was absent, he said. If not altered by an ultimatum on the part of the Israeli commercial banks, Raday believed the status quo would continue indefinitely. He told econoff that the bank had continued to provide services until now based only on an informal agreement with the government. While the bank's board members wanted to be seen as friendly towards GOI policy and the interests of the country, he said, they also wanted to avoid scrutiny by BOI regulators as a punitive measure for disobedience. Raday told econoff he had personally informed contacts at the BOI of the bank's decision. He described their reaction as calm but guarded and said he had no

indication of how they would respond once they had met internally on the matter.

¶4. (C) In an informal conversation with Econoff on October 1, Esther Deutch of Discount Bank, the only other bank currently providing correspondent services to Palestinian counterparts, said that her bank was aware of Hapoalim's recent decision. She said that her bank was likely to do the same in the next few weeks, though formal meetings on the issue had not yet been held. Deutch promised to keep econoff abreast of Discount's decision in the matter.

¶5. (C) Econoff spoke with David Zaken of the BOI on October 6. Zaken expressed great displeasure with Hapoalim's timing, saying the central bank was currently immersed in measures to manage Israeli exposure to the world financial crisis. Zaken said BOI officials had not yet had the opportunity to meet and formulate a response to Hapoalim's decision. He opined, however, that the BOI would be able to persuade the bank to postpone its decision. Zaken was not able to elaborate on what methods the bank might employ to do so. He promised to contact econoff next week after the BOI holds internal discussions on the matter.

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